

Executive Overview of the 2008 Annual Trending Program for Porter County, Indiana

The Porter County Assessors in conjunction with their consultant and Professional Appraiser, John G. Cleminshaw, Inc. undertook preliminary research to determine where a focus of efforts and resources would yield the best return of meaningful results, with the ultimate objective of achieving the optimal level of equalization between and among the various classes of real property in Porter County. As a result of this preliminary research, the Assessors concentrated on implementing the following functions and in-depth analyses:

The Validation of all Real Property Transactions Occurring from January 1, through December 31, 2007

In recent years, Porter County had been averaging approximately 7,500 sales per year. Consistent with national trends, however, the volume of sales declined to 5,928 for 2007 and plunged to 4,864 for 2008. Each sale that has been entered into the attached spreadsheet has been scrutinized for arms length validity utilizing information from sales disclosures, MLS and in certain situations, field inspections. Field inspections were conducted when it appeared that the physical characteristics of the property at the time of sale might be significantly different from what was listed on the Assessors record.

The Stratification of Residential Properties

Within their Standards on Ratio Studies, The International Association of Assessing Officers (IAAO) allows the stratification of residential properties on the basis of a variety of property characteristics, including but not limited to the age of the property, style of the property, location, sales price and assessed value.

After conducting an extensive amount of analysis designed to isolate the optimal break points, we have concluded that stratification of residential properties based on assessed value provides the best insight and overall usefulness to our trending project.

***** Although it was anticipated that parties overseeing the 2008 Ratio Study might question why newer properties were included within the same stratum as older residential properties, or that ranch dwellings were included with dwellings that were colonial in style (by way of example), it was the conclusion of the Assessors that this would not matter in the final analysis. What was most important was identifying and isolating which groups of properties were increasing in market value by an equivalent percentage and likewise, decreasing by an equivalent or proportionate amount. It became very evident that adjusting value on the basis of Assessed Value Stratums provided the best results. Therefore, because the ultimate goal was equity and a sales ratio that is as accurate as possible, trending values according to value strata made the most sense. The Assessors are of the strong belief that the excellent statistical results give overwhelming credence to their strategy and approach.**

The Trending of Improved Residential Property

The Assessors investigated the option of assigning trending factors to improved residential property on a neighborhood by neighborhood basis. After performing an extensive amount of analysis, however, the Assessors were ultimately not comfortable with the relatively small sample size of sales data in most of the neighborhoods. The small sample sizes of data quite naturally lead the Assessors to question the reliability of the results. The Assessors were wary of implementing the widely divergent trending factors that this flawed analysis indicated, given the fact that the small individual samples of data might not be truly representative of values in a given neighborhood as a whole.

The next step was to combine the sales data from several “comparable” neighborhoods, in an attempt to obtain more meaningful results. However, the results were deemed inconsistent and once again highly divergent in relation to adjoining neighborhoods. By contrast, stratifying and trending by Assessed Value Ranges produced excellent results as evidenced by the very tight statistical results documented in the Sales Ratio Study.

The Trending of Residential Vacant Land

Land values were analyzed separately from value attributed to improved residential property. The variable and inconsistent “regressive” and “progressive” assessment situation that often times showed itself in the improved residential property base was not on display in the sales data for vacant residential property in Porter County. The regressive and progressive assessment situations in the improved residential property base made it necessary to assign different trending factors within a given township. Because this problem was generally not evident in vacant residential property, it was determined that in most cases, one singular trending factor could be applied to all of the vacant land within an entire township.

Yogi Bear Mobile Home Park

The Assessors were unable to achieve ideal measurements of central tendency for the vacant parcels in this park following the application of trending factors to properties in this unique stratum. These properties appear to exhibit unusual market variability. The Assessors were unsuccessful in eliciting information from either the buyers or the sellers of these properties that would explain the unusual variability. Additionally, the outlier ratios cannot be amended through a correction of subjective or objective property data on record.

The Trending of Commercial and Industrial Values

Sales activity for commercial and industrial property was analyzed on a township level and in the context of the County as a whole.

There is a limited amount of sales data on commercial and industrial property in Porter County. The sales data that does exist suggests that values for commercial and industrial property in

general have been flat for several years and that sales prices are very inconsistent with Assessed Values.

There are a handful of “hotbed” areas of commercial growth that have developed in the past few years, located primarily at the interchanges of the Toll Road. However, although a healthy amount of this “build to specs” commercial new construction is in existence, there are not any open market transactions to serve as proof of the fair market value of these properties, much less as indicators of the value of other properties in the same commercial neighborhood.

Another important factor connected with the sales data concerns the Coefficient of Dispersion (C.O.D.) on the commercial and industrial sales file. The C.O.D.s in townships that have any sales at all contain ranges nearing 30.0. With such tremendously inconsistent ratios, an attempt to stop gap “fix” the problem with broad brush trending factors will only serve to make the problem worse. One only needs to visualize a scattergram with points spread all over the page. A trending factor applied to these wayward points will serve to drive many of the points farther away from the desired center. It is also important to note that a significant number of commercial properties received as much as an 18% increase as a result of the 2007 trending project.

Income and Expense information gathered through the appeals process was taken into consideration by the Assessors. This data was inconclusive, however, because the preponderance of information was from large multi-family housing properties, with virtually no reliable data attributable to other property use types. Furthermore, the few recent sales of multi-family housing property shows extremely inconsistent assessment ratios; therefore, blanket trending factors would only make the problem of inconsistency worse. Add to all of this the fact that the Assessors are skeptical about the genuine accuracy of the Income and Expense information submitted by the multi-family housing owners.

Local commercial real estate brokers were interviewed concerning the market for commercial and industrial properties in Porter County. These brokers confirmed that the recent market for commercial and industrial properties was flat at best throughout the County.

Increasing the building cost index for commercial properties did not make sense to the Assessors given the fact that the purpose of the Annual Trending Project is to reflect trends in sales prices rather than pure costs of construction. Furthermore, appreciation in building costs over the course of the last year, as documented by national cost services like Marshall and Swift, are essentially offset by the additional physical depreciation accrued on the same buildings.

In order to achieve IAAO Standards on statistical results for all townships, the Assessors would be forced to apply very large ratios – both positive and negative – on the small, unrepresentative sample of sale properties. The Assessors believe strongly that such data manipulation will only achieve an artificial and misleading goal.

In summation, it was determined that with the notable exceptions of both vacant and improved commercial property in Portage Township, and improved commercial property in Center and

Westchester Townships, **no** change to the Assessed Values of commercial and industrial properties should be applied for tax year 2008. The high C.O.D.s played a large role in cementing what became an easy decision. Because assessment ratios were all over the board from one sale to the next, any adjustment factor applied to the entire property base would only exacerbate the lack of equity that exists. Because of the lack of reliable sales data, it is impossible to know for sure whether there are genuine inaccuracies in Assessed Values. Further, the lack of reliable sales data also effectively eliminates any confidence the Assessors would otherwise have in assigning trending factors. It is the Assessors strong opinion that any apparent inaccuracy in Assessed Values in the commercial and industrial property classifications needs to be addressed on an individual property by property basis on the next General Reappraisal. Of course, trending factors were applied to improved commercial properties in Center, Portage and Westchester Townships, as well as vacant commercial property in Portage Township.